

No. 18634

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

LEAR SIEGLER, INC., a corporation,

Appellant,

vs.

JOHN S. ADKINS,

Appellee.

APPELLANT'S REPLY BRIEF.

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APPELLANT'S REPLY BRIEF.

I.

Summary of Appellee's Arguments.

Appellee's brief asserts many factual matters concerning a state court action that are not part of the record in this case.

Appellee asserts that this Court may treat appellant's application as an application for a writ of mandamus to ascertain whether or not the District Court abused its discretion in granting a stay of all further proceedings until final adjudication of an action pending between the same parties in the state court. However, Appellee asserts that this Court does not have appellate jurisdiction under 28 U.S.C. §1292.

Appellee also asserts that the federal court action does not arise under the patent laws because of a license agreement.

Appellee further asserts that there is concurrent jurisdiction of all issues in both the federal and state courts and that the federal court should stay further proceedings pending the outcome of the state court action.

These assertions will be discussed in the order set forth above.

II.

The Proceedings in This Appeal Must Be Based Upon the Record Which Was Before the District Court.

The question before this Court on appeal is whether or not the District Court erred or abused its discretion in granting the stay which was entered on April 9, 1963.

In his statement of the state court action and in various arguments, Appellee has asserted many matters which are not part of the record which was before the District Court, and many of which occurred after April 9, 1963. If such matters are to be considered on this appeal, it is submitted that these matters should be made part of the record. If this is done, the record will show that many of the Appellee's assertions as to the proceedings before the state court are not correct.

Appellee asserts that this Court may take judicial notice of the proceedings in the state court action, citing *Kanouse v. Martin* (1853), 56 U.S. 198. The *Kanouse* case involved the inspection of proceedings which showed the judgment of a state court to be erroneous. It is submitted that it is not proper to ask this Court to take judicial notice of proceedings in a state court which are continuing and becoming more and more

involved every week and in which there has been no trial or judgment. The proceedings that were part of the record before the District Court as of April 9, 1963 are the only proceedings in the state court that are part of the record of this case.

Rule 75 of the *Federal Rules of Civil Procedure* sets forth what shall comprise the record before the Court of Appeal. This rule went into effect in 1948, long after the decision in the *Kanouse* case in 1853, which is relied upon by the Appellee. In addition, the rules of the United States Court of Appeals for the Ninth Circuit provide in Rule 10 that “All appeals, civil and criminal, shall be heard on the original papers and the reporter’s transcript of evidence or proceedings, as designated and transmitted to this court in the manner provided in Rule 75(o), Federal Rules of Civil Procedure. . . .”

This Court has previously stated:

“Matters which were not before the trial court will be stricken on motion, even if they have been included in the record on appeal by stipulation. *Heath v. Helmick*, 9 Cir. 173 F.2d 156.” *Panaview Door & Window Co. v. Reynolds Metals Company* (9th Cir. 1958), 255 F.2d 920.

Information not a part of the record should have no place in the briefs of either party. *United States v. State of Arizona et al.* (9th Cir. 1954), 214 F.2d 389.

Accordingly, Appellant will not comment further upon such information.

III.

This Court Has Appellate Jurisdiction Under 28 U.S.C. 1292(b) as Well as Under 28 U.S.C. 1651.

In its order in response to Appellant's application for leave to take this appeal, this Court stated:

"The controlling question of law, if any, is and must be whether the district court erred or abused its discretion in granting said stay through its said order relating to stay of all further proceedings.

"This court is of the opinion that the application for leave to take an appeal from the interlocutory order aforesaid should be granted for the purpose of permitting argument before this court and review of the following questions:

"1. Whether an order for a stay is the type or kind of an order which could or does involve a controlling question of law within the meaning of § 1292(b) of Title 28 U.S.C.?

"2. Whether in case said question No. 1 is answered in the affirmative, the district court was in error or abused its discretion in granting the said order for stay?

"3. Whether in case it be determined that this appeal could not properly be maintained because of a negative answer to the first question above stated, this court may nevertheless consider and treat the application presented to us as an application for writ of mandamus. Cf. *Mach-Tronics*, No. 18340 (April 1, 1963)."

Appellee agrees that Appellant's application may be treated as an application for writ of mandamus and directs his arguments to whether or not the District Court abused its discretion.

Appellant asserts that the order for the stay involves a controlling question of law within the meaning of 28 U.S.C. 1292 (b) and that the stay ordered by the District Court was in error as presented in questions Nos. 1 and 2 suggested for review by this Court, as well as constituting an abuse of discretion as presented in question No. 3 suggested for review by this Court.

The complaint in the action before the District Court seeks a Declaratory Judgment of invalidity, unenforceability, and non-infringement of United States Letters Patent No. 2,919,586. [Tr. 2-9]. This sets forth a case arising directly under the patent laws. The District Court has original jurisdiction under patent cases to the exclusion of state courts. 35 U.S.C. 1338 (a).

The state court action is based on breach of contract and misappropriation [Tr. 20-25]. In the state court action, the Court may incidentally determine some of the issues which are involved in the present appeal, i.e., validity, infringement and enforceability of the patent. Such an incidental determination of validity, infringement and enforceability of the patent in question is not conclusive in a subsequent action brought to determine the matter directly. *Restatement of the Law of Judgments*, § 71. *Lyons v. Westinghouse Electric Corporation* (2nd Cir. 1955), 222 F.2d 184.

Moreover, a stay which is to be effective until final adjudication of the state court action may create a situation in which a state court judgment may be rendered as to certain matters which is not in accord with a

subsequent judgment of the federal court which has exclusive jurisdiction over such matters. Since Congress has entrusted to the federal courts original and exclusive jurisdiction over actions arising under any Act of Congress relating to patents, a stay of such an action in the federal court pending the outcome of an incidental determination of such issues in a state court is not proper because a conflict between the state and federal court decisions may result. *Propper v. Clark* (1948), 337 U.S. 472. *Mach-Tronics, Incorporated v. The Honorable Alfonso J. Zirpoli* (9th Cir. 1963), 316 F.2d 820.

Thus, the controlling question of law is whether the District Court erred or abused its discretion in staying all the further proceedings in a case arising directly under the patent laws pending final adjudication of a state court action in which some of the issues in the present case may be decided incidentally or collaterally to the causes of action set forth in the state court action.

This controlling question of law is presented in the Transcript of Record [Tr. 2-25] before this Court, and the District Court in its order stated that:

“The Court finds that this Order involves a controlling question of law as to which there is ground for difference of opinion and that an immediate appeal from this order may materially advance the ultimate termination of this litigation.”
[Tr. 88-89]

It is submitted that the Transcript of Record and the order of the District Court satisfy the jurisdictional requirements of 28 U.S.C. 1292 (b) for an appeal to this Court.

Appellee states that it is necessary for the District Court to identify the particular issue of law and explain how its prompt resolution might shorten the litigation. The cases cited by the Appellee do not substantiate this assertion. *In re Heddendorf* (1st Cir. 1959), 263 F.2d 887 is a case in which the court was undecided as to whether the District Court decision was an interlocutory decision under 28 U.S.C. 1292 or a final decision under 28 U.S.C. 1291, and the court decided not to permit an interlocutory appeal. In *Milbert v. Bison Laboratories* (3rd Cir. 1958), 260 F.2d 431, the order of the District Court did not contain a statement to the effect that the order involved a controlling question of law so as to permit immediate appeal, and in *Speir v. Robert C. Herd & Co.* (D.C. Md. 1960), 189 Fed. Supp. 436, the District Court expressly refused to include such a statement in its order. In *Gottesman v. General Motors Corporation* (2nd Cir. 1952), 268 F. 2d 194, the court held that an immediate appeal would not materially advance termination of the litigation because the matter in dispute merely related to a pre-trial ruling.

Thus, none of the cases cited by Appellee support his contention that the District Court must identify the particular issue of law and explain how its prompt resolution might shorten the litigation.

As discussed above, the Transcript of Record shows that there is a question of law as to whether or not it is proper for a District Court to stay proceedings in a case brought directly to determine matters over which it has original and exclusive jurisdiction until final adjudication of a case in the state court in which such matters may be incidentally determined.

Likewise, the record shows that a prompt resolution of this question of law may materially advance the ultimate termination of this litigation. The state court proceedings were instituted in 1960 [Tr. 14] and have not gone to trial yet. Appellate proceedings may delay the final resolution of the state court proceedings for years [Tr. 85]. Even then, the issues over which the District Court has original and exclusive jurisdiction can not be resolved because any final adjudication of such issues in the state court will not be controlling or conclusive in the present action before the District Court. *Restatement of the Law of Judgments*, Sec. 71. *Lyons v. Westinghouse Electric Corporation* (2nd Cir. 1955), 222 F.2d 184.

Moreover, Appellee asserts that he will seek to enforce the patent in question against Appellant if his state court action is unsuccessful [Tr. 18]. Thus, after litigation in the state court which may run for years in the future, Appellee asserts that he will seek to enforce his patent against Appellant if the state court action is unsuccessful. Moreover, the issues concerning the patent in suit may not be involved in any judgment which the state court may render. For example, the state court decision could be based upon the misappropriation issue alone without considering the patent in suit at all. A prompt resolution of the issues of patent infringement, validity and enforceability will materially advance the ultimate termination of this controversy.

It is submitted that all of the requirements of 28 U.S.C. 1292 (b) are met.

As set forth in detail in Appellant's Opening Brief, all of the requirements of 28 U.S.C. 1651 concerning writs of mandate are met.

Accordingly, it is submitted that this Court has appellate jurisdiction under both of the above statutory provisions.

IV.

The Present Cause of Action Arises Under the Patent Laws and the District Court Has Exclusive Jurisdiction Over Patent Cases to the Exclusion of State Courts.

Appellee asserts that the present action does not arise under the patent laws.

28 U.S.C. 1338 (a) states:

“The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases.”

Whether or not the present case arises under the patent laws depends on the nature of the cause of action as set forth in the pleadings. *Henry Pratt v. Paris Gaslight & Coke Company* (1897), 168 U.S. 458. The cause of action as set forth in Appellant’s pleadings is for Declaratory Judgment of invalidity, unenforceability, and non-infringement of United States Letters Patent No. 2,919,586 [Tr. 2-10]. These issues arise under and are controlled by Acts of Congress. The acts are set forth in 28 U.S.C. 1338 (a) concerning jurisdiction, 28 U.S.C. 2201 concerning declaratory judgments, 35 U.S.C. 100-188 concerning the validity of patents, 35 U.S.C. 271-392 concerning infringement of patents, and in various provisions of 35 U.S.C. and 15 U.S.C. 1-15 concerning enforcement of patents.

A state court may determine validity, infringement, and enforceability of a patent when such issues arise

incidentally to a cause of action in a case over which the state court has direct jurisdiction. *H. J. Heins Co. v. Superior Court* (1954), 42 Cal. 2d 164. *Rogers v. Hensley* (1961), 194 Cal. App. 2d 486. However, a state court holding on such issues over which the Federal District Court has original and exclusive jurisdiction is not binding on the Federal District Court in an action brought to determine these patent issues directly. *Restatement of the Law of Judgments*, § 71. Comment "c" under this Restatement section states:

"c. State and federal courts. The rule stated in this Section is applicable where a State court has incidentally determined a matter which the federal courts alone have jurisdiction to determine directly.

"If an action is brought in a State court on a promissory note, and the defendant in his answer alleges that the note was given for a void patent, the decision of the court that the patent was or was not void is not binding in a subsequent action brought in a federal court to have the patent declared void, or to enjoin an infringement of the patent, although the subsequent action is between the same parties, since the federal courts have exclusive jurisdiction to set aside a patent or to entertain a suit for its infringement."

To the same effect are the following cases involving Acts of Congress other than the patent laws in which Congress has given the federal courts exclusive jurisdiction: *Mach-Tronics, Inc. v. The Hon. Alfonso J. Zirpoli*, *supra*; *Lyons v. Westinghouse Electric Corporation*, *supra*; and *Propper v. Clark*, *supra*.

Any incidental determination of the patent issues in the state court action would not be binding in the present action brought to determine the patent issues directly. Accordingly, it is not proper for the District Court to stay its proceedings until final adjudication of the state court action. Any such stay will delay the ultimate determination of whether or not Appellant has any liability under the patent.

V.

Appellant Is Not Estopped to Contest the Validity of the Patent.

Appellee asserts that because of a license agreement between the parties there is no federal jurisdiction arising under the patent laws.

The license agreement in question was executed by the parties in 1955 [Tr. 27-43]. The license agreement provided that "Lear shall have the right on 90 days' prior written notice to Adkins, to terminate any one or more of the licenses herein granted." [Tr. 30]. The license agreement also provided that Lear at its option shall have the right forthwith to terminate the entire agreement in the event the U. S. Patent Office refuses to issue a patent on the substantial claims of the application of Exhibit B, which application became the patent which is the subject of the present suit.

Appellant terminated the license agreement exactly in accordance with these provisions of the agreement by a written notice dated April 8, 1959 [Tr. 66]. The patent issued on January 5, 1960 [Tr. 59].

When the license agreement was executed by the parties on September 15, 1955, Exhibit B to the agreement was an application for a patent which had been

filed on February 15, 1954 [Tr. 28] and no claims had been allowed in the application at the time the agreement was executed [Tr. 59]. Claims of a markedly different type appeared in the patent in suit which is based upon Exhibit B to the agreement [Tr. 60-61].

Thus, Appellant never operated as a licensee under any allowed claims in the application for the patent in suit, Appellant never operated as a licensee under any of the claims in the application as originally filed because these claims were not allowed, Appellant never received any benefit from the license agreement, and Appellant terminated the agreement in accordance with its express provisions approximately nine months before the patent issued so that Appellant was never a licensee under the patent. Hence, there can be no estoppel to contest the patent because of the license agreement. Likewise, the terminated license agreement can not affect the jurisdiction of the District Court in a case arising directly under the patent laws.

By the termination, Appellant assumed a legal status of a former licensee, which new status removes all estoppel against Appellant with regard to contesting the validity of the patent. Accordingly, the license agreement has been terminated and it can have no effect on federal jurisdiction arising under the patent laws in an action to contest the patent. In other words, there can be no estoppel of any kind to a former licensee.

In *Miehle Printing Press & Mfg. Co. v. Publication Corporation* (7th Cir. 1948), 166 F.2d 615, the court considered whether or not an exclusive licensee under an application for a patent was estopped to contest the patent when it issued after the license had been terminated. The licensor contended that the licensee used

the process and the teachings of the claims which were the subject of the license, and the licensor also contended that the licensee was estopped to contest the validity of the patent because of the previous license agreement. These are the same contentions that Appellee is making in the present action.

In the *Miehle* case, the court held that the licensee was not estopped to contest the patent because there had been a valid cancellation of the license agreement. The court also held that there was no implied estoppel under such circumstances, stating:

“Moreover, it has been held that an estoppel will not be implied or inferred but that it must clearly appear from the language which the parties have employed.” 166 F.2d 615, 618.

When a licensee is given the right to terminate the agreement by giving notice within a specified time period in writing to the licensor of his indication to terminate the agreement and such notice is properly given, the agreement thereafter lawfully terminates. Such a termination leaves the licensee with the same rights a stranger would have to dispute the title or right of the former licensor. After the termination of the license, the parties are freed from any estoppel resting upon them while in their former relationship. The licensee may dispute the right of title to the former licensor to the same extent as a stranger might. *Stimpson Computing Scale v. W. F. Stimpson et al.* (6th Cir. 1900), 104 F. 893.

The same rule mentioned above has been applied in many Circuit and District Courts, as follows:

CIRCUIT COURT CASES:

- International Burr Corp. v. Wood Grinding Service* (2nd Cir. 1929), 34 F.2d 905;
Measurements Corp. v. Ferris Instrument Corp. (3rd Cir. 1947), 159 F.2d 590;
Tate v. Baltimore & Ohio Railway Co. (4th Cir. 1915), 229 F. 141;
Davis v. Buck-Jackson Corporation (4th Cir. 1956), 230 F.2d 655;
H. Tibbe & Son Manufacturing Co. v. Heincken (C.C.S.D. N.Y. 1889), 37 F. 686;
Stimpson Computing Scale v. W. F. Stimpson et al. (6th Cir. 1900), *supra*;
Miehle Printing Press & Mfg. Co. v. Publication Corporation (7th Cir. 1948), *supra*.

DISTRICT COURT CASES:

- Bituminous Products Co. v. Headley Good Roads Co.* (D.C. Del. 1924), 2 F.2d 83;
Frost Ry. Supply Co. v. T. H. Symington & Son (D.C. Md. 1938), 24 F.Supp. 20;
Eskimo Pie Corporation v. National Ice Cream Co. (D.C.W.D. Ky. 1927), 20 F.2d 1003;
DeCew v. Union Bag & Paper Corp. (D.C. N.J. 1944), 57 F.Supp. 388;
Chance v. Lehigh Navigation Coal Company (D.C.E.D. Pa. 1938), 25 F.Supp. 532;
Howe v. Atwood (D.C.E.D. Mich. 1942), 47 F. Supp. 979.

Appellee asserts that *Atlas Imperial Diesel Engine Co. v. Lanova Corp.* (D.C. Del. 1948), 79 F.Supp. 1002, is authority for the proposition that because of the previous license agreement between the parties hereto, there is no federal jurisdiction in the present action. However, the complaint in the *Atlas* case sought an adjudication of an existing license agreement and of the patents set forth in the license agreement. Thus, the *Atlas* case was not a case arising under the patent laws, but rather was a case arising under the laws concerning contracts.

The present action is one arising under the patent laws. The terminated license agreement between the parties does not change the nature of the action.

Appellee asserts that *Bowers Manufacturing Co., Inc. v. All-Steel Equipment, Inc.* (9th Cir. 1960), 275 F.2d 809, is authority for the proposition that because of the previous license agreement, Appellant is estopped to contest the validity of the patent in suit.

The *Bowers* case involved a nonexclusive license concerning a patent which had already issued. The license was entered into to avoid an infringement suit by the patent owner after exchange of correspondence concerning infringement of the patent. The license agreement had certain cancellation provisions. The licensee did not terminate the license in accordance with the provisions of the agreement. The licensee repudiated the agreement on the basis of failure of consideration. The court pointed out that the consideration for the nonexclusive license was essentially a shield from suit for infringement by the grantor, and hence the invalidity of the patent would not constitute failure of consideration for such a license. The court went on to

point out that the consideration for an exclusive license is the monopoly value of the patent, and hence invalidity of the patent would constitute failure of consideration for such a license.

In the *Bowers* case the court held that the license agreement had not been terminated in accordance with its provisions, but rather had been repudiated by the licensee on the basis of failure of consideration. The court also held that invalidity of the issued patent which was the subject of the nonexclusive license could not constitute failure of consideration because the consideration was essentially abstention from suit for infringement by the patent owner. Accordingly, the court held that the nonexclusive licensee under such circumstances should not be allowed to contest the patent.

In the present case the license agreement was terminated in accordance with the express provisions of the agreement. The consideration for the license agreement was "an exclusive license under all the claims of said Exhibits B" [Tr. 30], which Exhibit B is the application for the patent in suit. This agreement was subject to certain conditions subsequent whereby the license could become nonexclusive [Tr. 39-40].

The original consideration at the time of entering into the agreement of the present action was an exclusive license under the claims of an application for a patent. The claims in the application at the time of execution of the license agreement were never allowed and claims of a markedly different type are in the issued patent [Tr. 59-61]. Appellant terminated the agreement in accordance with its express provisions before the patent issued [Tr. 66].

Thus, the *Bowers* case does not apply to the facts of the present case. There was an issued patent in the *Bowers* case, whereas in the present case there was merely an application for a patent with no allowed claims. The consideration in the *Bowers* case was a nonexclusive license entered into in order to avoid an infringement suit by the patent owner, whereas in the present case the original consideration was an exclusive license which could become nonexclusive upon the occurrence of certain conditions. In the *Bowers* case the main consideration was the settling or compromising of threatened litigation, whereas in the present case the main consideration was an exclusive license which could later become nonexclusive. In the *Bowers* case the monopoly value of the patent was of no consequence to the licensee, whereas in the present case the monopoly value was a primary part of the consideration. In the *Bowers* case the licensee did not terminate the license agreement in accordance with the provisions of the agreement, but rather the licensee repudiated the agreement, whereas in the present case Appellant terminated the agreement in accordance with its provisions.

Accordingly, the doctrine of estoppel set forth in the *Bowers* case has no application to the facts of the present case.

The California case of *Del Riccio v. Photochart* (1954), 124 Cal. App. 2d 301 is to the same effect as the *Bowers* case. In the *Del Riccio* case the license agreement concerning the particular patent in issue was entered into in order to compromise existing litigation between the parties. The court held that the non-exclusive licensee could not contest the licensed patent

because the consideration for the agreement was primarily the compromise of previously existing litigation between the parties concerning the patent.

It should be noted that the California case of *The Armstrong Company v. Shell Company of California* (1929), 98 Cal. App. 769, was not noted in the *Bowers* decision. The *Armstrong* case includes an extensive review of the cases dealing with the doctrine of repudiation and arrives at a result contrary to that reached in the *Bowers* case because of a difference in the consideration for the license agreement. The *Armstrong* case held that after a repudiation of the license agreement, the nonexclusive licensee was not estopped to contest the validity of the patent which was the subject of the license because a license under a valid patent was the main consideration. The court noted that the license agreement did not contain any recital admitting the validity of the patent, but rather it contained a guaranty of validity by the patent owner. The court held that the licensee simply did not receive the only substantial thing for which it bargained because the patent was not valid, and held that the nonexclusive licensee was not estopped to contest the validity of the patent.

In the present case, there is no recital admitting the validity of the patent in suit or admitting the validity of any of the claims which were presented in the application. In the present case, there is a representation and warranty by the licensor concerning validity. The license agreement states that "Adkins represents and warrants that to the best of his knowledge and belief he is the owner of the inventions covering the substantial claims as disclosed or intended to be disclosed in

the application for U. S. Patent for gyroscopes attached hereto and hereafter referred to as Exhibit B” [Tr. 27].

In the present case, Appellant asserts that it did not receive the only substantial thing for which it bargained because none of the substantial claims of the patent application had been allowed at the time the license agreement was terminated. Appellant also asserts that the patent which ultimately issued contains none of the substantial claims and is invalid, and hence appellant could never have received anything substantial even if the agreement had not been terminated.

Thus, the factual situation of the present case with reference to the consideration for the agreement is very similar to that in the *Armstrong* case. In addition, the present case involves an exclusive license as the original consideration rather than a nonexclusive license as was involved in the *Bowers* case.

VI

Any Incidental Jurisdiction Which the State Court Has Over the Issues Concerning the Patent in Suit Is Secondary to the Original and Exclusive Jurisdiction of the District Court.

Appellee asserts that because of the previous license agreement there is concurrent jurisdiction in the federal and the state courts concerning the issues of validity and scope of the patent, and that the state court should decide these issues.

As discussed above, any jurisdiction which the state court may have concerning validity, infringement and enforceability of the patent is incidental, and the original and exclusive jurisdiction to finally resolve these

issues is in the Federal District Court by Act of Congress.

In *Lionel Corporation et al. v. De Filippis, et al* (D.C. N.Y. 1935), 11 F. Supp. 712, the licensor granted an exclusive license and there was a dispute as to whether or not the license agreement had been terminated. The licensee brought a declaratory judgment action to have the patent adjudicated invalid, or if valid not infringed. The licensor contended that there was an action pending in the state courts which raised substantially all of the issues raised by the Declaratory Judgment action and that the licensee was estopped from contesting the validity or infringement of the patent. However, the court refused to dismiss the complaint on the basis of the pending state court action or on the basis of estoppel on the part of the licensee. The court stated:

“But whether the agreement was terminated as plaintiffs contend, or is in effect as defendants urge, the plaintiffs are not estopped from raising the issue of infringement. The real controversy between the parties is whether the toy boats are an infringement. That cannot be determined except under the patent laws. The issue is one which should be determined in the first instance by a Federal District Court.” 11 F. Supp. 712, 716.

This reasoning is in line with the reasoning of the Supreme Court as noted in the quiet title case of *Lowry et al v. Hert* (6th Cir. 1923), 290 F. 876. The Court at page 878 listed the authorities for federal court jurisdiction of infringement actions beginning with:

“. . . the line of cases of which *Healy v. Seagull Co.*, 237 U.S. 479, 35 Sup. Ct. 658, 59 L.Ed.

1056, is the latest in the Supreme Court, and the *Excelsior Co. v. Pacific Co.*, 185 U.S. 282, 22 Sup. Ct. 681, 46 L.Ed. 910, and *Henry v. Dick Co.*, 224 U.S. 1, 32 Sup. Ct. 364, 56 L.Ed. 645, Ann. Cas. 1913D, 880 (overruled but not on this point), are earlier examples in the same court . . . They establish that where the suit is clearly and plainly one brought for infringement of patent, and involving the issues usual in such cases, the fact is not fatal, whether it appears by the bill or by the answer, that the defendant has had a license under the patent, and that the matter of actual dispute between the parties is whether that license, according to its terms, is still in force. In these cases, it has been considered that the main and primary question is one of infringement, and that the question whether there is a license continuing in force must be taken as a secondary and collateral dispute, however controlling it may turn out to be.”

This same ruling on similar facts is found in the case of *Chicago Metallic Mfg. Co. v. Edward Katzinger Co.* (7th Cir. 1941), 123 F.2d 518, in which the District Court had dismissed a suit for a declaratory judgment upon defendants’ filing of an affidavit which set out the pendency of a state court proceeding involving royalties allegedly due the licensor for articles manufactured under a license. The Circuit Court ruled that although the granting of the remedy of a declaratory judgment is discretionary, the mere pendency of a state court suit between the parties is not basis for refusing a declaratory judgment action. The determining factor noted by the Circuit Court was whether or

not the issues in the action in the District Court and the state court were the same. In this regard, the Court held at page 520:

“ . . . The principal question presented by the complaint in this case is the validity of the patents. That question could not be litigated in the state court case, consequently, the parties are not able to procure a full and immediate adjudication of their rights.”

Even if a state court judgment were in existence today, that judgment would not provide a full and immediate adjudication of the rights of the parties to this suit. Such a state court judgment would not be conclusive or controlling in this action brought directly to adjudicate the invalidity, non-infringement and unenforceability of a patent. Moreover, Appellee, at page 18 of his brief, asserts that the state court could rule in his favor on either cause of action whether the patent is valid or invalid. Thus, the validity of the patent could be moot in the state action since it can be decided without reference to this point. On the other hand if the state court action is unsuccessful for Appellee, he has threatened an infringement suit in the federal courts [Tr. 18]. Of course, it is equally plain that a state court judgment could be framed in such a manner that even if Appellee were successful in the state court, Appellee could bring an infringement suit in a federal court. It is in just such a situation that the Declaratory Judgment act demonstrates its usefulness by affording a prompt adjudication of the rights of parties which must otherwise await long delays in a state court action which cannot properly adjudicate rights arising under the patent laws.

In *H. J. Heins Co. v. Owens* (9th Cir. 1951), 189 F.2d 505 cited by Appellee, a state court had rendered a judgment and issued an injunction. A contempt action was brought in the state court action, and thereafter the defendant sought, by a declaratory judgment action, an injunction in the federal court to restrain the contempt proceedings in the state court. Thus, in the *Heins* case the action was to enjoin the enforcement of the decision of a state court and of course that was not an action arising under the patent laws, as in the present case.

Appellee cites *Seagren v. Smith* (1944), 63 Cal. App. 2d 733 in support of his contention that there is concurrent jurisdiction in the federal and the state courts. The *Seagren* case involved the assignment of an issued patent and a license giving the right to make, use and sell certain devices including any improvements made thereafter by the licensor. The licensee reassigned to the original owner all of the rights theretofore assigned and cancelled the agreement. However, he continued to manufacture and sell the devices which were the subject of the license agreement. Under the facts of the *Seagren* case the court held that the licensee was obligated to pay royalties upon the theory of implied contract.

Thus, in the *Seagren* case the question was whether or not the state court had jurisdiction over an action based upon an implied contract. The validity, infringement or enforcement of the patent were not made issues in the state court action and they were not placed directly in issue in a declaratory judgment action, as in the present case.

In *United States v. Adamant Co.* (9th Cir. 1952), 197 F.2d 1, relied upon by Appellee, there was concurrent jurisdiction but the case was not one in which the federal court had original and exclusive jurisdiction, as in the present case.

Moreover, the California courts have fully recognized the distinction between concurrent jurisdiction in some situations, and cases of infringement in which the exclusive jurisdiction rests in the federal court. The case of *Shores v. Chip Steak Co.* (1955), 130 Cal. App. 2d 620 recognized this distinction as defined in 28 U.S.C. § 1338 (a) at page 625.

“The complaint at bar challenges defendants’ claims of valid trademark and valid United States patent. If this were an action for infringement of patent, the federal courts would have exclusive jurisdiction (21 C.J.S. p. 794 § 525; 40 Am. Jur. p. 652, § 169). And plaintiff’s election to sue for declaratory judgment that he is not an infringer does not give the state court power to hear the case; the controversy remains one of exclusive federal jurisdiction. (*E. Edelmann & Co. v. Triple-A Specialty Co.*, 88 F.2d 852; *Grip Nut Co. v. Sharp*, 124 F.2d 814; *Lionel Corp. v. De Filippis*, 11 F. Supp. 712, 716; *Cheatham Elec. Switching Device Co. v. Kentucky S. & S. Co.*, 213 Ky. 23 [280 S.W. 469, 471].) The question of patent infringement cannot be litigated by either party in the state court. . . . The same would be true of copyright infringement if it were directly presented. (*Loew’s, Inc. v. Superior Court*, 18 Cal. 2d 419, 427 [115 P.2d 983].)

“But a different situation exists in relation to federal trademarks. The state courts have concurrent jurisdiction of such infringement cases.”

A patent infringement question, as distinguished from a trademark infringement question, is involved in the present suit. This patent infringement question is one for the exclusive jurisdiction of the federal courts. Since it cannot be conclusively litigated in the state court, it of necessity cannot create a collateral estoppel.

In the *Lyons* case, *supra*, Judge Hand explained why a state court ruling on an issue within exclusive federal jurisdiction cannot create a collateral estoppel in a federal court. It was noted, writing in connection with the exercise of exclusive jurisdiction, that:

“It should be taken to imply an immunity of their decisions of any prejudgment elsewhere, . . .”
222 F.2d 184, at 189.

In *Mach-Tronics, Incorporated v. The Honorable Alfonso J. Zirpoli*, *supra*, this Court stated:

“It has long been recognized that when a federal court is properly appealed to in a case over which it has by law jurisdiction, it is its duty to take such jurisdiction.” 316 F.2d 820, 828.

This Court went on to consider the cases in which abstention is justified because of a pending state court action and concluded that abstention is not justified when the administration or enforcement of an Act of Congress is involved. This Court stated with reference to the anti-trust laws:

“We think that here in any event the federal court must sooner or later determine the issues presented by the treble damage complaint.” 316 F.2d 820, 830.

* * * * *

“ . . . the court cannot avoid a decision of that issue no matter what the state court decision may turn out to be.” 316 F.2d 820, 831.

With reference to abstention on the basis of concurrent jurisdiction and the possibility that it might be an estoppel, this Court stated:

“But let us suppose that such a determination in a state court would operate as an estoppel. That in our view would constitute an additional reason for the respondent court to proceed without delay. . . .” 316 F.2d 820, 832.

The patent laws are Acts of Congress, and the comments of this Court in the *Mach-Tronics* case concerning other Acts of Congress apply equally to the present case.

Conclusion.

This Court has jurisdiction over this application under 28 U.S.C. 1292, as well as under 28 U.S.C. 1651.

The previous license agreement between the parties does not affect federal jurisdiction in this action which arises under the patent laws.

The terminated license agreement between the parties under Appellee's application for a patent does not estop Appellant from contesting the patent which ultimately issued after termination of the license agreement.

The federal court has original and exclusive jurisdiction over the present cause of action which is brought to determine the issues of validity, infringement and enforceability of a patent. Any jurisdiction which the state court has over such issues is incidental, and any decision by the state court on these issues will not be binding upon the federal court.

It is requested that this Court promptly direct the District Court to remove the stay of all further proceedings, and that this Court direct the District Court to proceed without delay to adjudicate the issues which have been entrusted to its original and exclusive jurisdiction by Acts of Congress.

Respectfully submitted,

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Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

C. RUSSELL HALE

